

## Macroeconomics II

Academic Year: 2013/2014

Semester: 2<sup>nd</sup>

Instructor: Pedro Teles [pteles@ucp.pt](mailto:pteles@ucp.pt)

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Course Description: This course is the third course in the sequence of macroeconomics after an introductory course and a first course in macroeconomics (Macroeconomics I). It involves two major steps: The most important step is methodological, the introduction to a fully consistent framework where most of the issues are addressed. The framework is a simplification of the real business cycle, dynamic general equilibrium model. This simplification is possible because the issues that are treated are the ones of the small open economy, so that the real business cycle model can be solved in a simple way. The analysis of the open economy is the second, substantive step. In Macroeconomics I, only the closed economy is studied.

The students are expected to apply the material presented in the lectures to new problems. For this purpose, roughly every week they are expected to solve a set of problems of which some will be subject to evaluation. Only after those mini-tests, the solution of the problems is presented.

Unfortunately there is not one single book that is satisfactory. The book by J. Sachs and F. Larrain, *Macroeconomics in the Global Economy*, has material that can be used, but it is a very partial use. Most of the readings consist of the lecture notes. These notes also include a set of exercises. The reading of some papers is also suggested, such as J. Frankel, "Quantifying International Capital Mobility in the 1980's" and R. Lucas' Nobel Lecture.

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### Course Content:

#### 1. Real business cycles in the open economy.

- a. The balance of payments: Accounting and economics.
- b. Savings, investment and the current account. Response of the open economy to real shocks.  
Sachs and Larrain, cap. 6, secs 7.3-7.5.
- c. International capital mobility. Interest rate parities.  
Sachs and Larrain, secs 20.2, 20.5  
J. Frankel, "Quantifying International Capital Mobility in the 1980's," in D. Das, ed., *International Finance*, Routledge, 1993.
- d. Purchasing power parity and the real exchange rate. Nontradeable goods.  
Sachs and Larrain, sec 10.2, cap 21

#### 2. Money and nominal rigidities in the open economy.

- a. Empirical evidence on money, inflation and output in the long and short run.  
Lucas, R., 1996, "Nobel Lecture: Monetary Neutrality," *Journal of Political Economy* 4, 104, 661-682.  
Lucas, R., 1988, "What Economists Do," Address to the 411th Convocation, Universidade de Chicago.
- b. A simple model with nominal rigidities. Nominal and fiscal devaluations
- c. Monetary policy and foreign exchange in the long run.



Course Objectives: To provide an understanding of the main macroeconomic issues in the open economy at an intermediate level, as well as the ability to analyze formally simple, but fully consistent, macroeconomic models.

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Grading: Problem sets will be handed out roughly every week. A week later, there will be a test on a small part of the problem set. The other problems will also be solved in the TA sessions.

The grade is based on the tests on the Problem sets (15%), a Midterm Exam (35%), and a Final Exam (50%) including all the material. There may be a minimum grade on the final exam.

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Bibliography:

General reference: Sachs, J. and F. Larrain, "Macroeconomics in the Global Economy," Prentice-Hall, 1993  
J. Frankel, "Quantifying International Capital Mobility in the 1980's," in D. Das, ed., International Finance, Routledge, 1993.

Lucas, R., 1988, "What Economists Do," Address to the 411th Convocation, University of Chicago.

Lucas, R., 1996, "Nobel Lecture: Monetary Neutrality," Journal of Political Economy 4, 104, 661-682.

Class notes and copies of the articles will be made available.

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Biography: Pedro Teles is a Full Professor at Catolica-Lisbon SBE. He is also a Researcher at the Bank of Portugal and a Research Fellow of the CEPR. He holds a PhD in Economics (The University of Chicago) and an undergraduate degree in Economics (UCP). He was a Senior Economist in the Research Department at the Federal Reserve Bank of Chicago between 2001 and 2004, and has taught in the Ph.D. programs at Universitat Pompeu Fabra and University College London.

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Contact(s) and Office hours: The lecturer's office hours are by appointment. The TAs will set weekly office hours.

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